

STATE OF HAWAII—DEPARTMENT OF TAXATION
INSTRUCTIONS FOR FORM N-314
HOTEL CONSTRUCTION AND REMODELING TAX CREDIT

GENERAL INSTRUCTIONS

Each taxpayer subject to Hawaii's net income tax and transient accommodations tax may claim a hotel construction and remodeling tax credit for a qualified hotel facility located in Hawaii. A nonrefundable tax credit of 10 percent is available for qualified construction or renovation costs incurred after November 1, 2001, but before July 1, 2003. The credit changes to a refundable 4 percent credit for qualified construction or renovation costs incurred after June 30, 2003 through December 31, 2005. See Department of Taxation Announcement No. 2001-20.

No tax credit shall be allowed for that portion of the construction or renovation costs for which another tax credit was claimed under Hawaii's net income tax law for the taxable year.

If a deduction is taken under Internal Revenue Code (IRC) section 179 (regarding an election to expense certain depreciable business assets) no tax credit shall be allowed for that portion of the construction or renovation costs for which the deduction was taken.

The basis of eligible property for depreciation or ACRS purposes for state income taxes shall be reduced by the amount of tax credit allowable and claimed. Alternatively, you may treat the amount of the credit allowable and claimed as a taxable income item for the taxable year in which it is properly recognized under the method of accounting used to compute taxable income.

The tax credit shall not be available for taxable years beginning after December 31, 2005.

In the case of a partnership, S corporation, estate, trust, association of apartment owners of a qualified hotel facility, time share owners association, or any developer of a time share project, the tax credit allowable is for qualified construction or renovation costs incurred by the entity for the taxable year. The construction or renovation costs upon which the tax credit is computed is determined at the entity level. Each partner, S corporation shareholder, or beneficiary of an estate or trust shall separately take into account for its taxable year with or within which the entity's taxable year ends, the partner's, shareholder's, or beneficiary's share of the construction or renovation costs and resulting tax credit. A partner's share of the construction or renovation costs shall be determined in accordance with the ratio in which the partners divide the general profits of the partnership. The construction or renovation costs of the partnership which are subject to a special allocation that is recognized under IRC section 704(a) and (b) shall be recognized for the purposes of this tax credit. Each S corporation shareholder's construction or renovation costs is the shareholder's allocated share of the S corporation's construction or renovation costs. A beneficiary's share of the construction or renovation costs is apportioned between the entity and the beneficiaries based on the income of the entity allocable to each. The term "beneficiary" includes an heir, legatee, or devisee. Associations of apartment owners and timeshare owners associations, see the instructions for Part III.

When credit can be claimed. The credit may be claimed for the taxable year in which the costs were incurred. When costs are incurred depends on a taxpayer's method of accounting. For cash basis taxpayers, costs are incurred when paid. For accrual basis taxpayers, costs are incurred when the expense is recognized.

Time for filing. All claims for the tax credit, including amended claims, must be filed on or before the end of the 12th month following the close of the taxable year for which the tax credit may be claimed. An extension of time for filing a return does not extend the time for claiming the tax credit. Failure to comply with the foregoing provision shall constitute a waiver of the right to claim the tax credit.

Definitions. For purposes of the tax credit:

"Qualified hotel facility" means a hotel/hotel-condo as defined in section 486K-1, HRS, and includes a time share facility or project.

"Construction or renovation cost" means any cost incurred for plans, design, construction, and equipment related to new construction, alterations, or modifications to a qualified hotel facility. The plain meaning of the terms "alter" and "modify" require actions which change a property by renewing its

condition. Maintenance is the act of making repairs to prevent a decline or lapse in the existing state or condition. Routine maintenance would not qualify for the credit because routine maintenance does not change a property by renewing its condition. To the extent that incidental maintenance repairs are incurred as part of a general plan of renovation, however, these expenses will qualify for the credit since they are incurred as part of an expenditure to improve a property. See Tax Information Release No. 2000-2.

SPECIFIC INSTRUCTIONS

Part I — Computation of Tax Credit for Costs Incurred After 11/1/01, but before 7/1/03

Line 1 — Enter the qualifying construction or renovation costs incurred during the taxable year before 7/1/03 for qualified hotel facility(ies) located in Hawaii. Do not include that portion of the construction or renovation costs for which another tax credit was claimed under chapter 235, HRS, for the taxable year. Do not include that portion of the renovation cost for which a deduction is taken under IRC section 179. Do not include costs for routine maintenance or repairs.

Line 2 — Flow through of qualifying construction or renovation costs received from other entities, if any. In the case of a taxpayer who is a member of a pass-through entity (i.e., partnership, S corporation, estate, or trust) and who claims a tax credit for the entity's qualified construction or renovation costs, enter the amount of the costs incurred before 7/1/03 received from the entity on line 2.

Line 3 — Estates and trusts: The total cost incurred before 7/1/03 on line 3 is to be allocated between the estate or trust and the beneficiaries in the proportion of the income allocable to each party. In the space above line 4, enter the cost allocable to the estate or trust with the designation "N-40 PORTION". Attach Form N-314 to the N-40 return and show the distributive share of the costs for each beneficiary.

Form N-20 and N-35 filers, stop here. Form N-20 filers, enter the amount on line 3 on Schedule K, line 22a. Form N-35 filers, enter the amount on line 3 on Schedule K, line 12l(1). Form N-40 filers enter the distributive share amount on line 10 of Schedule K-1, Form N-40, for each beneficiary, otherwise continue to line 4. All others, continue to line 4. Identify this amount as post 11/1/01 costs.

Line 6 — This line is for the carryover of unused hotel construction and remodeling tax credit.

Line 7 — Add lines 5 and 6. This is your tentative current year hotel construction and remodeling tax credit.

Tax Liability Limitations

Line 8 — Enter the tax liability before any credits from the appropriate line of your tax return.

Line 9 — The law requires that ALL other credits offset a taxpayer's tax liability BEFORE allowing a residential construction and remodeling tax credit. **Complete the Credit Offset Worksheet** in these instructions and enter the result on line 9.

Line 11 — Compare the amounts on lines 7 and 10. Enter the smaller of line 7 or 10 here. This is your maximum credit allowed for this taxable year.

Tax credit to be deducted from income tax liability. Tax credits which exceed the taxpayer's net income tax liability may be used as credit against the taxpayer's net income tax liability in subsequent years until exhausted.

Part II — Computation of Tax Credit for Costs Incurred After 6/30/03, but before 1/1/06

Line 13 — Enter the qualifying construction or renovation costs incurred during the taxable year after 6/30/03 for qualified hotel facility(ies) located in Hawaii. Do not include that portion of the construction or renovation costs for which another tax credit was claimed under chapter 235, HRS, for the taxable year. Do not include that portion of the renovation cost for which a de-

duction is taken under IRC section 179. Do not include costs for routine maintenance or repairs.

Line 14 — Flow through of qualifying construction or renovation costs received from other entities, if any. In the case of a taxpayer who is a member of a pass-through entity (i.e., partnership, S corporation, estate, or trust) and who claims a tax credit for the entity's qualified construction or renovation costs, enter the amount of the costs incurred after 6/30/03 received from the entity on line 14.

Line 15 — Estates and trusts: The total cost incurred after 6/30/03 on line 15 is to be allocated between the estate or trust and the beneficiaries in the proportion of the income allocable to each party. In the space above line 15, enter the cost allocable to the estate or trust with the designation "N-40 PORTION". Attach Form N-314 to the N-40 return and show the distributive share of the costs for each beneficiary.

Form N-20 and N-35 filers, stop here. Form N-20 filers, enter the amount on line 15 on Schedule K, line 22b. Form N-35 filers, enter the amount on line 15 on Schedule K, line 12(2). Form N-40 filers enter the distributive share amount on line 10 of Schedule K-1, Form N-40, for each beneficiary, otherwise continue to line 16. Identify this amount as post 6/30/03 costs. All others, continue to line 16.

Line 17 — Enter this portion of the tax credit claimed for the year on this line and on Schedule CR, Line 16 or enter the estate's or trust's share on Form N-40, Schedule F, line 3. For individual taxpayers, round the amount on line 17 to the nearest dollar.

Tax credit to be deducted from income tax liability, if any; refunds. If this portion of the tax credit exceeds the taxpayer's income tax liability, the excess of tax credit over liability shall be refunded to the taxpayer; provided that no refunds or payment on account of the tax credit shall be made for amounts less than \$1.

Part III — Owner-member's Share of Qualifying Costs

Part III is for associations of apartment owners and timeshare owners associations to provide information to the associations' owner-members regarding the members' share of the associations' qualifying construction or renovation costs. Each member must qualify for the credit on its own. The fact that this information is provided to a member does not qualify that member to take the credit.

Any association of apartment owners or timeshare owners association which has incurred qualifying construction or renovation costs for a qualified hotel facility located in Hawaii shall provide to its members a statement of the member's share of those qualifying costs on this form.

Name of association — The association's name is to appear in the name space near the top of the form.

Line 18. — Member's name - Enter the member's name on this line.

Line 19. — Member's identification number. Enter the member's social security number or federal employer identification number.

Line 20. — Member's share of qualifying costs incurred before 7/1/03. Enter the member's share of the total qualifying construction or renovation costs incurred by the association **before** 7/1/03.

Line 21. — Member's share of qualifying costs incurred after 6/30/03. Enter the member's share of the total qualifying construction or renovation costs incurred by the association **after** 6/30/03.

Instructions for Members

If you have received this form from your association, see the General Instructions of this form to determine if you qualify for this credit. If you qualify for the credit, enter the amount in Part III, line 20 or 21 of the Form N-314 you received from your association of apartment owners or timeshare owners on line 2 of Part I or line 14 of Part II respectively and check box d of the Form N-314 you will use to compute your credit and file with your return.

CREDIT OFFSET WORKSHEET

Tax Credit	Amount
a. Income Taxes Paid to another state or foreign country	_____
b. Enterprise Zone Tax Credit	_____
c. Energy Conservation Tax Credit	_____
d. Credit for Employment of Vocational Rehabilitation Referrals	_____
e. Individual Development Account Contribution Tax Credit	_____
f. Credit for School Repair and Maintenance	_____
g. Credit for Low-Income Household Renters	_____
h. Credit for Child and Dependent Care Expenses	_____
i. Credit from a regulated investment company	_____
j. Fuel Tax Credit for Commercial Fishers	_____
k. Credit for Child Passenger Restraint Systems	_____
l. Capital Goods Excise Tax Credit	_____
m. Motion Picture and Film Production Income Tax Credit	_____
n. Low-Income Refundable Tax Credit	_____
o. Tax Credit for Research Activities	_____
p. Renewable Energy Technologies Income Tax Credit	_____
q. Hotel Construction and Remodeling Tax Credit	_____
r. Ethanol Investment Tax Credit	_____
s. Drought Mitigating Water Storage Facility Tax Credit	_____
t. Low-Income Housing Tax Credit	_____
u. High Technology Business Investment Tax Credit	_____
v. Technology Infrastructure Renovation Tax Credit	_____
w. Residential Construction and Remodeling Tax Credit	_____
x. Add lines a through w. Enter the amount here and on Part I, line 9	_____